

ORDER NO. 2102

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;  
Mark Acton, Vice Chairman; and  
Robert G. Taub

Competitive Product Prices  
Inbound Air Parcel Post (at UPU Rates)  
(MC2010-11)

Docket No. CP2014-52

ORDER ACCEPTING PRICE CHANGES  
FOR INBOUND AIR PARCEL POST (AT UPU RATES)

(Issued June 26, 2014)

I. INTRODUCTION

The Postal Service proposes a change in rates not of general applicability for Inbound Air Parcel Post (at Universal Postal Union (UPU) Rates), effective July 1, 2014.<sup>1</sup> For the reasons discussed below, the Commission finds that the planned price changes satisfy applicable statutory criteria.

II. BACKGROUND

*Product history.* In 2007, the Commission established separate lists for competitive and market dominant products in the Mail Classification Schedule (MCS),

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<sup>1</sup> Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability for Inbound Air Parcel Post, June 11, 2014 (Notice). The Postal Service does not propose any changes to the classification of Inbound Air Parcel Post (at UPU Rates). *Id.* at 2. See also Order No. 2090, Notice and Order Concerning Changes in Rates for Inbound Air Parcel Post (at UPU Rates), June 13, 2014.

and assigned Inbound Air Parcel Post to the competitive product list.<sup>2</sup> The Commission later bifurcated this product.<sup>3</sup> One product was labeled Inbound Air Parcel Post (at UPU rates); the other was labeled Inbound Air Parcel Post (at non-UPU rates). Order No. 362 at 11.

*Impact of international law and related practices on pricing.* Under the Universal Postal Convention, postal operators tender air parcels to each other for delivery in the destination country at prices established by the UPU Postal Operations Council (POC), except where postal operators have negotiated alternative ("non-UPU") prices. See Notice, Attachment 2 at Attachment C. In establishing UPU rates, the POC relies on formulas in the UPU Parcel Post Regulations. These formulas generate rates based on a percentage of each member's inward land rate in 2004. UPU members may seek an annual inflation-related adjustment to the formula-generated base rate (applied in January of each year). UPU members may also qualify for semi-annual "bonuses" (increases) to their base rate if they provide certain value-added services. These bonuses are applied to the base rate in January and July of each year. *Id.*

The Postal Service (like other foreign postal operators that are UPU members) has a limited role in this process, as it consists only of gathering and submitting information the POC uses to calculate rates.<sup>4</sup> Based on this information (and similar information from other posts), the UPU International Bureau (IB) publishes, by the end of September, each member's inward land rates. *Id.* New rates are implemented at the beginning of the next calendar year and remain in effect until January 1 of the following

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<sup>2</sup> Docket No. RM2007-1, Order No. 43, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007, at 100.

<sup>3</sup> Docket Nos. MC2010-11 and CP2010-11, Order Adding Inbound Air Parcel Post at UPU Rates to Competitive Product List, December 15, 2009 (Order No. 362). See also Docket Nos. MC2010-11 and CP2010-11, Request of the United States Postal Service to Add Inbound Air Parcel Post at Universal Postal Union (UPU) Rates to the Competitive Products List, Notice of Establishment of Prices and Classifications Not of General Applicability for Inbound Air Parcel Post at UPU Rates Established in Governors' Decision No. 09-15, and Application for Non-Public Treatment of Materials Filed Under Seal, November 17, 2009 (Request).

<sup>4</sup> This includes completing an annual questionnaire on eligibility for the service bonus. Notice, Attachment C at Attachment 2.

year. *Id.* Article RC 193.3 allows modifications to the bonus payment portion of inward land rates to be implemented twice each year on January 1 and July 1. Notice at 2, n.2. The IB confirms to all designated operators by March 31 any changes to the inward land rates that apply July 1 of that same year. *Id.*

*Product pricing.* In Docket Nos. MC2010-11 and CP2010-11, the unique role international law plays in pricing air parcel post shipment led the Postal Service to propose — and the Commission to approve — the pricing approach described in Governors' Decision No. 09-15.<sup>5</sup> That approach incorporates by reference the UPU pricing practices summarized above; establishes rates for Inbound Air Parcel Post as the highest rates for which the Postal Service is eligible under the UPU pricing mechanism; and authorizes the Postal Service to transmit to the Commission annual filings at UPU rates for Inbound Air Parcel Post not covered by a bilateral or multilateral agreement. *Id.* Attachment 3.

*Developments affecting calendar year 2014 rates.* On December 16, 2013, the Postal Service filed a notice concerning Inbound Air Parcel Post (at UPU rates), effective January 1, 2014.<sup>6</sup> In Order No. 1936, the Commission accepted those rates.<sup>7</sup> The instant Notice concerns the semi-annual (July 1) modification for bonuses. Notice at 2, n.3.

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<sup>5</sup> See Request cited in n.3, *supra*. The Decision of the Governors of the United States Postal Service on the Establishment of Prices and Classifications for Inbound Air Parcel Post at UPU Rates, November 17, 2009 (Governors' Decision No. 09-15) appeared as Attachment 3 to the Request. Governors' Decision No. 09-15 appears as one of several documents in Attachment 2 to the instant Notice and, in Attachment 2, carries the designation Attachment C.

<sup>6</sup> Docket No. CP2014-14, Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability and Application for Non-Public Treatment of Materials Filed Under Seal, December 16, 2013.

<sup>7</sup> Docket No. CP2014-14, Order Accepting Price Changes for Inbound Air Parcel Post (at UPU Rates), December 30, 2013 (Order No. 1936).

### III. THE POSTAL SERVICE'S POSITION

The Notice, filed pursuant to 39 C.F.R. § 3015.5, incorporates by reference the explanation of the UPU Postal Operations Council's mechanism for setting rates for Inbound Air Parcel Post provided in the Postal Service's original Request addressing the UPU rate process for Inbound Air Parcel Post discussed above. *Id.* at 2. The Postal Service maintains that the planned rates comport with Governors' Decision No. 09-15 because they are the highest possible inward land rates for which the Postal Service is eligible, based on inflation increases and other factors. *Id.* at 2-3. It therefore asserts it has established that the new rates are in compliance with the requirements of 39 U.S.C. § 3633(a)(2) and has met its burden of providing notice to the Commission of changes in rates within the scope established by Governors' Decision No. 09-15, as required by 39 U.S.C. § 3632(b)(3). *Id.* at 3.

### IV. COMMENTS

The Public Representative filed comments on June 19, 2014.<sup>8</sup> No other comments were received. Based on her review of the financial model, the Public Representative states that it appears the rates, in total, for Inbound Air Parcel Post at UPU rates should generate sufficient revenues to cover costs and to provide an appropriate share to the institutional costs of the Postal Service. PR Comments at 2. She therefore recommends that the proposed rates be accepted. *Id.*

### V. COMMISSION ANALYSIS

*Standard of review.* The Commission reviews price changes for competitive products in terms of the criteria in 39 U.S.C. § 3633(a). These criteria prohibit the subsidization of competitive products by market dominant products (§ 3633(a)(1)); require each competitive product to cover its attributable costs (§ 3633(a)(2)); and

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<sup>8</sup> Public Representative Comments on Postal Service Notice Concerning Changes in Rates Not of General Applicability for Inbound Air Parcel Post (at UPU Rates), June 19, 2014 (PR Comments).

require competitive products as a whole to cover an appropriate share of institutional costs (§ 3633(a)(3)).<sup>9</sup>

The Commission has reviewed the Notice, supporting documentation, and the Public Representative's comments in light of the criteria in 39 U.S.C. §§ 3633(a)(1)–(a)(3).<sup>10</sup> As a result of this review, the Commission finds that the rates presented in the Notice should not lead to the subsidization of competitive products by market dominant products; should cover attributable costs; and should have a positive effect on the contribution that competitive products make to institutional costs. Thus, the Commission finds that the planned rates for Inbound Air Parcel Post (at UPU rates) satisfy the relevant statutory criteria and regulatory requirements of 39 U.S.C. § 3633(a) and 39 C.F.R. § 3015.7.

*Other issues.* The Postal Service's submissions in dockets concerning Inbound Air Parcel Post have consistently provided (or incorporated by reference) useful context about the product's history and pricing. The Commission finds that certain limited, additional information is needed to ensure expeditious, thorough, and timely review. The Commission therefore directs the Postal Service to provide, in future filings, a citation (including annex and page number) to where the applicable inward land rates can be located in the relevant IB Circular and to provide a copy of the cited IB Circular.<sup>11</sup>

The Commission also directs the Postal Service to provide an update, as part of each filing, to certain information and data provided in the Management Analysis that accompanied the Request (cited in n.3, *supra.*) concerning the addition of Inbound Air Parcel Post (at UPU rates) to the competitive product list and presented, in the instant

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<sup>9</sup> The UPU Convention, Article 12, section 5 requires UPU member countries to accept, handle, convey and deliver parcels weighing up to 20 kilograms (approximately 44 pounds) pursuant to the UPU Convention pricing or through bilateral agreements.

<sup>10</sup> Decision of the Governors of the United States Postal Service on the Establishment of Prices and Classifications for Inbound Air Parcel Post at UPU Rates, November 17, 2009 (Governors' Decision No. 09-15). See Notice, Attachment 2.

<sup>11</sup> For example, in this docket, the relevant circular is IB Circular 48, Parcel Post–Inward Land Rates Applicable from 1 July 2014 (dated March 31, 2014). The rates are found at Annex 1, page 10.

Notice, Attachment 2 at Attachment C.<sup>12</sup> Specifically, the Commission seeks data and information concerning the Postal Service's submission of formal documentation to the UPU in support of an inflation-linked adjustment for the inward land rate it receives from other postal administrations and transmission of responses to the UPU survey to justify bonus payments; the date the UPU advises the United States that the inward land rate applicable to its inbound air parcels would be per item plus per kilo special drawing rights (SDRs); the inward land rate calculation for the pertinent year (or period); the SDR equivalent in U.S. dollars; and the estimated cost coverage for the pertinent calendar year. Updates to any other pertinent information in the Management Analysis (such as bonus percentages for certain services and the cap on inflation-linked adjustments), shall also be provided. Submission of this data and information will provide the Commission with information needed to efficiently and expeditiously complete its review under § 3633(a).<sup>13</sup>

## VI. ORDERING PARAGRAPHS

*It is ordered:*

1. The Commission finds that the planned rates for Inbound Air Parcel Post at UPU Rates, scheduled to take effect July 1, 2014, are in accordance with the relevant statutory and regulatory requirements of 39 U.S.C. § 3633(a) and 39 C.F.R. § 3015.7.

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<sup>12</sup> The referenced document is captioned "Attachment C, Management Analysis of Inbound Air Parcel Post at UPU Rates."

<sup>13</sup> Submission of the requested data and information should not impose a burden, as the Postal Service develops it in the ordinary course of its filings with the IB and the Commission related to Inbound Air Parcel Post (at UPU rates).

2. The Postal Service is directed to provide, in future filings concerning rates for Inbound Air Parcel Post at UPU rates, a citation to the relevant IB Circular (including annex and page number); a copy of the relevant IB Circular; and an update to the information and data (described in the body of this Order) appearing in the document identified as Attachment C, Management Analysis of Inbound Air Parcel Post at UPU Rates, in Attachment 2 to the instant Notice.

By the Commission.

Shoshana M. Grove  
Secretary